OMX Nordic Exchange Reykjavík
OMX Nordic Exchange Copenhagen

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FØROYABANKI

IFRS RECONCILIATION DOCUMENT

FØROYA BANKI GROUP

4 MAY 2009

Introduction

With effect from the accounting year beginning on 1 January 2009, Føroya Banki will present its consolidated accounts in accordance with the International Financial Reporting Standards (IFRS).

This is a legal requirement. In accordance with the Faroese Banking Act all financial companies which are listed on a stock exchange shall prepare the consolidated accounts in accordance with IFRS if they are required to prepare consolidated accounts.

This IFRS Reconciliation Statement describes the changes in valuation and presentation after the transition to IFRS. The changes affect the valuation and presentation of the accounts including the Føroya Banki Group's shareholders equity; however the Group's cash flows will not change.

The transition to IFRS entails a net increase of DKK 135,902m in the Group's shareholders' equity at 1 January 2008 and a net decrease of DKK 31,098m at 31 December 2008. If the 2008 Annual Report had been presented in accordance with the IFRS accounting policies, the Group's net profit would have been DKK 75,861m lower amounting to DKK 94,891m.

Contents

1.1. The effects of the transition to IFRS

The Føroya Banki Group prepared its financial statements in accordance with the executive order and guidelines of the Danish FSA on the presentation of financial statements by banks as applied in the Faroes until 31 December 2008.

With effect from the accounting year beginning on 1 January 2009, the Føroya Banki Group and the parent company P/F Føroya Banki will present its financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU Commission with effect from 1 January 2009.

Consequently, the valuation of some assets and liabilities and the presentation of the income statement and the balance sheet will be changed.

According to the current Faroese Banking Act, no consolidated financial statements have been prepared. With the implementation of IFRS, the Bank will be required to prepare consolidated financial statements from 2009. This document compares figures for the Group.

Basis of preparation of IFRS information
The Group's opening balance sheet at 1 January 2008, the balance sheet at 31 December 2008 and the income statement for 2008 will be presented in accordance with IFRS 1, "First-time adoption of IFRS".

The Group has decided to restate all accounting figures for 2008 in accordance with its IFRS-based accounting policies, but has applied the mandatory exceptions and the optional exemptions where applicable from full retrospective application of IFRS.

The IFRS information presented in this document has been prepared on the basis of current approved standards and interpretation of the standards. There is a possibility that the accompanying preliminary opening IFRS balance sheet may require adjustment before constituting the final opening IFRS balance sheet, for example because the standards and interpretations that will actually apply when the Group prepares its first complete set of IFRS annual financial statements for the year ending 31 December 2009 could differ from those currently expected to be effective.

Significant accounting policies

General
For the first time, the Føroya Banki Group will present its annual consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the EU and with relevant interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Furthermore, the consolidated financial statements will comply with the requirements for annual reports formulated by the Nasdaq OMX Reykjavik

and the Nasdaq OMX Copenhagen and with the executive order on implementation of IFRS which applies for the Faroes issued by the Danish FSA.

The transition to the new standards is completed in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

Accounting estimates and assessments
The preparation of the consolidated financial statements is based on a number of estimates and assessments of future events that will affect the carrying amounts of assets and liabilities. For example, the management of the Føroya Banki Group estimate impairment charges for loans and advances and the fair value of investment property.

The estimates and assessments are based on assumptions that the management finds reasonable but that are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected future events or situations may occur. Such estimates and assessments are therefore difficult to make and will always entail uncertainty, even under stable macroeconomic conditions, when they involve transactions with customers and other counterparties.

Consolidation
The consolidated financial statements comprise the parent company, P/F Føroya Banki, as well as subsidiaries in which P/F Føroya Banki exercises control over financial and operating policies. The consolidated entities are P/F Trygd, P/F Skyn and Føroya Bank Holding A/S.

The consolidated financial statements combine the financial statements of the parent and the individual subsidiaries in accordance with the Group’s accounting policies, in which intragroup income and costs, shareholdings, balances and dividends as well as realised and unrealised gains and losses on intragroup transactions have been eliminated.

Acquired subsidiaries are included from the date of acquisition.

The assets of acquired subsidiaries, including identifiable intangible assets, as well as liabilities and contingent liabilities, are recognised at the date of acquisition at fair value in accordance with the acquisition method.

Where the cost including direct transaction costs exceeds the fair value of the net assets of the acquiree, the difference will be recognised as goodwill. Goodwill is carried at the functional currency of the acquiree. Where the fair value of net assets exceeds the cost (negative goodwill), the difference will be recognised as income in the income statement at the date of acquisition.

Subsidiaries disposed of are included until the date of disposal.

Segment information
The Group engages in a number of business activities from which it earns revenues and incur expenses. The information provided on business segments relates to the Group’s operating segments whose operating results are regularly reviewed by the management

making decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment information has been prepared in accordance with the Group's accounting policies.

Segment revenue and expenses as well as segment assets and liabilities comprise the items that are directly attributable to or reasonably allocable to a segment. Non-allocated items primarily comprise assets and liabilities, revenue and expenses relating to the Group's administrative functions as well as income taxes etc.

Foreign currency translation
The consolidated financial statements are presented in DKK, the functional currency of the parent and all the consolidated subsidiaries. Transactions in foreign currencies are translated at the exchange rate on the date of transaction.

Balances in foreign currencies are translated at the closing rate.

Offsetting
Amounts due to and from the Group are offset when the Group has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Government guarantee
The Bank participates in the government guarantee scheme extending to 30 September 2010. Guarantee commission is recognised on a straight-line basis in the income statement over the guarantee period and is presented under "Other operating expenses". The Bank's commitment to cover any loss under the scheme is recognised as a provision when it is probable and can be measured reliably. Such amounts are recognised in the income statement under "Impairment charges on loans and advances etc.".

ASSETS

Financial instruments – general (assets)
Purchases and sales of financial instruments are recognised and measured at their fair value at the settlement date. The fair value is usually the same as the transaction price. Changes in the value of financial instruments are recognised up to the settlement date.

Classification
The Group's financial assets are at initial recognition, divided into the following three categories:

- loans and advances measured at amortised cost
- trading portfolio measured at fair value
- financial assets designated at fair value with value adjustments through profit and loss

Loans and advances measured at amortised cost
Initial recognition of amounts due from credit institutions and central banks as well as loans and advances is at fair value plus transaction costs and less origination fees and other charges received.

Subsequently they are measured at amortised cost, according to the effective interest method, less any impairment charges.

The difference between the value at initial recognition and the nominal value is amortised over the term to maturity and recognised under “Interest income”

Impairment
Amounts due from credit institutions and central banks at amortised cost are all assessed individually to determine whether objective evidence of impairment exists. Significant loans and advances are also all assessed individually to determine whether objective evidence of impairment exists.

Objective evidence of impairment of loans and advances exists if at least one of the following events has occurred:

- the borrower is experiencing significant financial difficulty
- the borrower’s actions, such as default on interest or principal payments, lead to a breach of contract
- the Group, for reasons relating to the borrower’s financial difficulty, grants to the borrower a concession that the Group would not otherwise have granted
- it becomes probable that the borrower will enter bankruptcy or another type of financial reorganisation

If objective evidence of impairment of a loan, an advance or an amount due exists, and the impairment event or events effects the expected cash flow from the asset, and the effects on the expected cash flow is reliably measurable, the Group determines the impairment charge individually. The impairment charge equals the difference between the carrying amount and the present value of the most likely future cash flow from the asset, including the net realisable value of any collateral. The present value of fixed-rate loans and advances is calculated at the original effective interest rate, wheras the present value of loans and advances with a variable rate of interest is calculated at the current effective interest rate.

Loans and advances that are not individually charged for impairment are included in a group which is collectively subject to an impairment assessment.

The group assessment is based on groups of loans and receivables with similar credit risk characteristics. The Bank operates with a total of 4 groups, divided into one group of public authorities, one group of private customers and two groups of corporate customers, as corporate customers are subdivided into fishing industry and other industries.

The group assessment is made using a Faroese variant of a statistical segmentation model developed by the Association of Local Banks, Savings Banks and Cooperative

Banks in Denmark (Lokale Pengeinstitutter), which is responsible for the ongoing maintenance and development. The segmentation model determines the correlation in the individual groups between losses identified and a number of significant explanatory macro-economic variables via a linear regression analysis. The explaining macro-economic variables include interest rates, the industrial energy consumption, total payroll in the fishing industry, petrol price index etc.

The macro-economic segmentation model is basically calculated on the basis of loss data for the entire Faroese banking sector. Føroya Banki has therefore assessed whether the model estimates reflect the credit risk of Føroya Banki's own loan portfolio.

This assessment has resulted in an adjustment of the estimates of the model to Føroya Banki's own loan portfolio situation. Therefore it is the adjusted estimates which form the basis of the calculation of the group impairment charge. The adjusted estimates may be further adjusted to reflect any events or circumstances incurred but not yet reflected in the model.

An estimate appears for each group of loans and advances which expresses the impairment as a percentage attached to a specific group of loans and advances at the balance sheet date. By comparing the individual loans current risk of loss with the loans original risk of loss and the loans risk of loss at the start of the current accounting period, the contribution of the individual loan to the group impairment charge appears. The impairment charge is calculated as the difference between the book value and the discounted value of the expected future payments.

The impairment charge is recognised on a allowance account and set off against the loans and advances. Changes in the allowance account are recognised in the Income Statement under the item "Impairment charges on loans and advances etc". If subsequent events show that impairment is not permanent, the impairment charge is reversed.

Loans and advances that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans and advances are written off once the usual collection procedure has been completed and the loss on the individual loan or advance can be calculated.

In accordance with the effective interest method, interest is recognised on the basis of the value of the loans and advances less impairment charges.

Trading portfolio measured at fair value

The trading portfolio includes financial assets acquired which the Group intends to sell or repurchase in the near term. The trading portfolio also contains financial assets managed collectively for which a pattern of short-term profit taking exists. All derivatives are part of the trading portfolio.

Assets in the trading portfolio comprise the shares, bonds and derivatives with positive fair value held by the Group's trading departments.

At initial recognition, the trading portfolio is measured at fair value, excluding transaction costs. Subsequently, the portfolio is measured at fair value and the value adjustments are recognised in the Income Statement.

Financial assets designated at fair value with value adjustments through profit and loss
Financial assets designated at fair value comprise instruments managed on a fair value basis but without short-term profit-taking. This comprises shares which are not a part of the trading portfolio, including some sector shares.

Determination of fair value
Fair value is determined according to the following order of priorities:

- market-based sales value if there is a well-functioning market
- calculated sales value calculated as the relevant capital value of the security if a relevant capital value can be calculated by means of generally accepted value assessment models and methods
- cost price less provision for impairment

The above mentioned means that:

- listed shares and bonds are calculated at market price,
- unlisted shares and capital shares are calculated at estimated sales value or cost price less provision for impairment

Derivatives and hedge accounting
Derivatives are recognised and measured at fair value. Positive market values are recognised under “Other assets”. Negative market values are recognised under “Other liabilities”.

Market value adjustment of derivatives, mainly interest rate swaps concluded for the purpose of hedging the interest rate risk of fixed-rate loans and advances, generates immediate asymmetry in the financial statements as fixed-rate loans and advances are measured at amortised cost. The hedging provisions of IFRS aim to eliminate this asymmetry. The calculated change in the fair value of the loans and advances effectively hedged is recognised in the balance sheet under “Other assets” or under “Other liabilities” and is recognised in profit or loss under “Market value adjustments”.

Assets under insurance contracts
Assets under insurance contracts comprise reinsurance assets and receivables.

Reinsurance assets are measured by initial recognition at fair value and subsequently at fair value.

Holdings in subsidiaries and associates
Subsidiaries are undertakings in which the Group has control over financial and operating policy decisions. Control exists if P/F Føroya Banki directly or indirectly, holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating policy decisions, provided that most of the return on the undertaking

accrues to the Group and that the Group assumes most of the risk. Control may be exercised through agreements about the undertaking's activities whereby Føroya Banki controls its operating policy decisions. Potential voting rights that are exercisable on the balance sheet date are included in the assessment of whether P/F Føroya Banki controls an undertaking.

Associated undertakings are businesses, other than group undertakings, in which the Group has holdings and significant influence but not control. The Group generally classifies undertakings as associated undertakings if P/F Føroya Banki directly or indirectly holds 20-50% of the voting rights.

In the consolidated financial statements holdings in associated undertakings are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate share of the net profit or loss of the individual undertaking is included under "Income from associated undertakings" and based on data from financial statements with balance sheet dates that differ no more than three months from the balance sheet date of the Group.

The proportionate share of the profit and loss on transactions between associated and group undertakings is eliminated.

In the parent company's financial statement holdings in subsidiary and associated undertakings are recognised at cost.

Subsidiaries and associates with negative net asset values are measured at DKK 0. Any legal or actual obligation to cover the negative balance of the undertakings is recognised in provisions. Any receivables from these undertakings is written-down according to the impairment loss risk.

Profit on divested subsidiaries and associates are calculated as the difference between the selling price and the book value inclusive of any goodwill on the divested holdings.

Land and buildings

On acquisition land and buildings are recognised at cost. The cost price includes the purchase price and costs directly related to the purchase until the date when the asset is ready for use. The cost price also includes estimated costs of demounting the asset and re-establishment to the extent that such costs are included as an obligation.

Investment property

Investment property is real property, including real property let under operating leases that the Group own for the purpose of receiving rent and/or obtaining capital gains. The section on domicile property below explains the distinction between domicile and investment property.

Subsequently, investment property is measured at fair value. Fair value adjustments and rental income are recognised under "Market value adjustments" and under "Other operating income" respectively.

The fair value is assessed by the Group's valuation experts at least once a year. Assessments are based on the expected return on the Group's property and the rate of return calculated for each property. The rate of return of a property is determined on the basis of its location, type, possible uses, layout and condition as well as on the terms of lease agreements, rent adjustment and credit quality of the lessees.

Domicile property
Domicile property is real property occupied by the Group's administrative departments, branches and other service units. Real property with both domicile and investment property elements is allocated proportionally to the two categories if the elements are separately sellable. If that is not the case, such real property is classified as domicile property, unless the Group occupies less than 10% of the total floorage.

Subsequently, domicile property is measured at a revalued amount corresponding to the fair value at the date of the revaluation less depreciation and impairment. The revaluation model is based on the expected cash flow and a return percentage assessed for the individual property. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount which would be determined using fair value at the balance sheet date. Depreciation is made on a straight-line basis over the expected useful life of 30 years, taking into account the expected residual value at the expiry of the useful life.

Value adjustments according to revaluations are recognised directly in equity. Depreciation and impairments are recognised in the income statement under the item "Depreciation and impairment of property, plant and equipment". Impairments are only recognised in the income statement to the extent that it can not be offset in former period's revaluations.

Domicile property which, according to a publicly announced plan, the Group expects to sell within twelve months is recognised as an asset held for sale. Real property taken over as part of the settlement of debt is recognised under Other assets.

Other property, plant and equipment
Other property, plant and equipment comprise equipment, vehicles, furniture and leasehold improvements and is measured at cost less depreciation and impairment. Assets are depreciated according to the straight-line method over their expected useful lives, which usually is three to five years.

Impairment of domicile property and other tangible assets
Domicile property and other tangible assets are tested for impairment if indications of impairment exist. An impaired asset is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Assets held for sale
Assets held for sale include property, plant and equipment and disposal groups held for sale. Assets taken over under non-performing loan agreements are also classified as assets held for sale. Assets are classified as held for sale when the carrying amount will be recovered principally through a sale transaction within 12 months in accordance with a

formal plan rather than through continuing use. Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell. An asset is not depreciated or amortised from the time when it is classified as held for sale.

Impairment losses arising at initial classification of the asset as held for sale and gains or losses at subsequent measurement at the lower of carrying amount and fair value less costs to sell are recognised in the income statement under the items they concern.

Other assets
Other assets include interest and commissions due and prepayments.

LIABILITIES AND PROVISIONS

Financial instruments – general (liabilities)
Purchases and sales of financial instruments are recognised and measured at their fair value at the settlement date. The fair value is usually the same as the transaction price. Changes in the value of financial instruments are recognised up to the settlement date.

Classification
The Group's financial liabilities are at initial recognition, divided into the following three categories:

- due to credit institutions and central banks, issued bonds and deposits measured at amortised cost
- trading portfolio measured at fair value
- other financial liabilities measured at cost

Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost
Initial recognition of amounts due to credit institutions and central banks, issued bonds as well as deposits is at fair value net of transaction costs.

Subsequently they are measured at amortised cost, according to the effective interest method, by which the difference between net proceeds and nominal value is recognised in the income statement under the item "Interest expenses" over the loan period.

Trading portfolio measured at fair value
The trading portfolio includes financial liabilities acquired which the Group intends to sell or repurchase in the near term. All derivatives are part of the trading portfolio.

Liabilities in the trading portfolio comprise derivatives with negative fair value held by the Group's trading departments.

At initial recognition, the trading portfolio is measured at fair value, excluding transaction costs. Subsequently, the portfolio is measured at fair value and the value adjustments are recognised in the Income Statement.

Determination of fair value
The determination of the fair value is identical with the determination of the fair value of assets. Please refer to this section under financial assets.

Liabilities under insurance contracts
Liabilities under insurance contracts consist of provisions for unearned premiums and claims provisions.

Premium provisions are calculated according to a best estimate of the sum of expected payments as a result of insurance events arising after the balance sheet date that are covered by agreed insurance contracts. Premium provisions include future direct and indirect expenses for administration and claims processing of agreed insurance contracts. A premium provision represents at least the part of the gross premium that corresponds to the part of the insurance period that comes after the balance sheet date.

Claims provisions are calculated according to a best estimate of the sum of expected payments as a result of insurance events until the balance sheet date, in addition to the amounts already paid as a result of such events. Claims provisions also include amounts which the Group, according to a best estimate, expects to pay as direct and indirect costs in connection with the settlement of the claims liabilities.
Claims provisions are discounted according to the expected settlement of the provisions on the basis of the discount rate issued by the Danish FSA.

Other liabilities
This item includes liabilities not recognised under other liability items, such as negative market values of spot transactions and derivatives, interest payable deferred income and provisions for employee benefits.

Wages and salaries, payroll tax, social security contributions and compensated absences are recognised in the financial year in which the associated service has been rendered by the Group's employees. Costs relating to the Group's long-term employee benefits are accrued and follow the service rendered by the employees in question.

Pension contributions are paid into the employees' pension plans on a continuing basis and are charged to the income statement – with the exception of a few contracts where the capitalised value of the pension obligation has been provided for. Changes in the capitalised value are recognised continuously in the Income Statement.

Provisions
Provisions include provisions for guarantees, provisions for onerous contracts and legal actions etc. Initial recognition of financial guarantees is at fair value which is often equal to the guarantee premium received. Subsequent measurement of financial guarantees is at the higher of the guarantee premium received amortised over the guarantee period and any provisions made.

A provision for a guarantee or an onerous contract is recognised if claims for payment under the guarantee or contract are probable and the liability can be measured reliably.

Provisions are based on the management's best estimates of the size of the liabilities. Measurement of provisions includes discounting when significant.

EQUITY

Own shares
Purchase and sales amounts and dividend regarding holdings of own shares are recognised directly in the equity under the item "Retained earnings". Profits and losses from sale are not included in the income statement.

Dividends
The Board of Directors' proposal for dividends for the year submitted to the general meeting is included as a separate reserve in shareholders' equity. The dividends are recognised as a liability when the general meeting has adopted the proposal.

INCOME STATEMENT

Income criteria
Income and expenses are accrued over the periods to which they relate and are recognised in the Income Statement at the amounts relevant to the accounting period.

Interest income and expenses
Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost are recognised in the income statement according to the effective interest method on the basis of the cost price. Interest includes the amortisation of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and the amortisation of any other differences between cost price and redemption price.

Interest income and expenses also includes interest on financial instruments measured at fair value.

Interest on loans and advances subject to impairment is recognised on the basis of the impaired value.

Dividends on shares
Dividends on shares are recognised in the income statement on the date the Group is entitled to receive the dividend. This will normally be when the dividend has been approved at the company's annual general meeting.

Fees and commission income
Fees and commission income comprises fees and commission income that is not included as part of the amortised cost of a financial instrument. The income is accrued during the service period. The income includes fees from securities dealing, money transmission services and loans as well as guarantee commission. Income from carrying out a given transaction is recognised as revenue once the transaction is complete.

Fees and commission expenses incurred
Fees and commission expenses comprises fees and commission expenses paid that are not included as part of the amortised cost of a financial instrument. The costs include guarantee commissions and trading commissions.

Premium income from non-life insurance, net of reinsurance
Gross premium from non-life insurance comprises insurance premiums due. Net premium income from non-life insurance comprises gross premiums for the period adjusted for changes in premium provisions less reinsurance.

Claims incurred related to non-life insurance, net of reinsurance
Claims incurred comprise the claims incurred for the year adjusted for changes in provisions for claims corresponding to known and expected claims incurred for the year. In addition, the item includes run-off results regarding previous years.

Amounts to cover internal and external costs for inspecting, assessing and containing claims and other direct and indirect costs associated with the handling of claims incurred are included in this item.

In addition, the item covers premiums paid and reinsurance coverage received.

Market value adjustments
Market value adjustments comprise all value adjustments of assets and liabilities that are measured at fair value, and exchange rate adjustments which are included in the income statement.

Other operating income
Other operating income includes other income that is not ascribable to other income statements items, including income from the company's investment property activities.

Staff costs and administrative expenses

Staff costs
Salaries and other remuneration that the Group expects to pay for work carried out during the year are expensed under Staff costs and administrative expenses. This item includes salaries, bonuses, holiday allowances, anniversary bonuses, pension costs and other remuneration.

Pension obligations
The Group's contributions to defined contribution plans are recognised in the income statement as they are earned by the employees. Changes in the capitalised value of the few defined benefit pension contracts that exist are recognised continuously in the Income Statement

Depreciation and impairment of property, plant and equipment
Depreciation and write-downs of tangible assets comprise the depreciation and write-downs on tangible assets for the period.

Other operating expenses
Other operating expenses include other expenses that are not ascribable to other income statement items.

Impairment charges on loans and advances etc.
Impairment charges on loans etc. includes impairment losses on and charges for loans and advances and amounts due from credit institutions and other receivables involving a credit risk as well as provisions for guarantees and unused credit facilities.

Tax
Faroese consolidated entities are not subject to compulsory joint taxation, but can opt for joint taxation provided that certain conditions are complied with. P/F Føroya Banki has opted for joint taxation with the subsidiary P/F Skyn. Corporation tax on income subject to joint taxation is fully distributed on payment of joint taxation contributions between the consolidated entities.

Tax for the year includes tax on taxable profit for the year, adjustment of deferred tax as well as adjustment of tax for previous years. Tax for the year is recognised in the income statement as regards the elements that can be attributed to profit for the year and directly in equity as regards the elements that can be attributed to items recognised directly in equity.

Current tax liabilities and current tax assets are recognised in the balance sheet as calculated tax on taxable profit for the year, adjusted for tax on taxable profit of previous years.

Provisions for deferred tax are based on the balance sheet liability method and include temporary differences between the carrying amounts and tax bases of the balance sheets of each consolidated entity as well as tax loss carry forwards that are expected to be realised. Calculation of deferred tax is based on current tax law and tax rates at the balance sheet date.

Deferred taxes are recognised in the balance sheet under the items “Deferred tax assets” and “Provisions for deferred tax liabilities”.

Cash flow statement
The Group prepares its cash flow statement according to the indirect method. The statement is based on the pre-tax profit for the year and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the year.

Cash and cash equivalents consist of cash in hand and demand deposits with central banks and amounts due from credit institutions and central banks with original maturities shorter than three months.

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Following the above presentation of the Group's new accounting policies a description of the effects of the transition to IFRS on shareholders' equity at 1 January 2008 and at 31 December 2008 and on the net profit for 2008 will be made in section 1.2.

1.2 Effect on shareholders' equity at 1 January 2008 and 31 December 2008 and on the net profit for 2008.

Comparative figures for 2008 are restated according to the new IFRS-based accounting policies. If Føroya Banki's Group Annual Report for 2008 had been presented in accordance with IFRS, shareholders' equity at 1 January 2008 would have increased by DKK 135,902m to DKK 1,479,431m. At 31 December 2008 the shareholders' equity would have decreased by DKK 31,098m. The net profit for the year 2008 would have decreased by DKK 75,861m to DKK 94,891m.

The changes are stated in detail in the figure below:

DKK 1,000	Shareholders' equity at 1 January 2008	Net profit for 2008	Shareholders' equity at 31 December 2008
2008 Practice	1.343.530	170.753	1.562.116
Origination fees, loans and advances (IAS 39)	-46.735	-11.888	-58.623
Elimination of own shares (IAS 32)	-20.139	2.290	-16.153
Impairment write-downs of loans and advances (IAS 39)	88.695	-59.654	29.042
Domicile property (IAS 16)	77.430	-18.318	778
Investment property (IAS 40)	2.500	-2.500	0
Origination fees, due to credit institutions etc. (IAS 39)	4.828	-1.899	2.929
Dividends (IAS 10)	45.000	0	0
Outstanding claims, insurance contracts (IFRS 4)	-1.291	1.338	47
Tax on IFRS adjustments (IAS 12)	-14.387	14.769	10.882
Total change	**135.902**	**-75.861**	**-31.098**
IFRS	**1.479.431**	**94.891**	**1.531.018**

Origination fees, Loans and advances (IAS 39)

According to IAS 39, "Financial Instruments, recognition and measurement", fees and commissions that are an integral part of the effective interest rate of a financial instrument must be included in the calculation of the amortised cost of the financial instrument. As a result, origination fees received in connection with lending will be accrued as an integral part of the loan. Under the previous accounting policies origination fees were recognised as income at the time of payment.

The opening balance sheet is restated to reflect this. Shareholders' equity at 1 January 2008 decreases by DKK 46,735m, and net profit 2008 decreases by DKK 11,888m. In total shareholders' equity at 31 December 2008 decreases by DKK 58,623m.

Elimination of own shares (IAS 32)

Under the previous accounting policies, own shares were recognised as an asset at their fair value. Market value adjustments were recognised in the income statement.

According to IAS 32 "Financial instruments, presentation", own shares do not qualify as an asset. Consequently, assets and Shareholders' equity will be reduced by the total value of own shares amounting to DKK 20,139m at 1 January 2008. Purchases of own shares will be considered as a reduction and sales as an increase in shareholders' equity. Gains and losses from trading in own shares will not affect the net profit of the Group. Therefore the net profit for 2008 is increased by DKK 2,290m. The total effect on shareholders' equity at 31 December 2008 is a decrease of DKK 16,153m.

Impairment write-downs of loans and advances (IAS 39)
According to the previous accounting policy the criteria for write-downs of loans and advances was largely based on conservative estimates. Under IFRS the Group's accumulated provisions for bad and doubtful debt must be stated in accordance with IAS 39 "Financial Instruments, recognition and measurement". Consequently objective criteria are established for determining impairment and resulting write-downs to the present value of expected cash flows. The write-downs of loans and advances will still require an estimate of the probability that the full amount of a loan or an advance is uncollectable and of the size of any write-downs.

As a result of the change, write downs of impaired loans will, as a general rule, be recognised later than under the previous accounting policies. Consequently the Group's accumulated provisions will decrease after the transition to IFRS. This is the reason why shareholders' equity at 1 January 2008 increases by DKK 88,695m. Net profit 2008 decreases by DKK 59,654m due to new write-downs which already where provided for at the end of 2007 according to the previous accounting policies. At 31 December 2008 shareholders' equity is increased by DKK 29,042m.

Domicile property (IAS 16)
Under the previous accounting policies the Group measured all its properties at cost less depreciation and write-downs. Properties whose fair value, at a conservative estimate was considerably higher than the cost price were revalued at the higher value. According to IFRS domicile property is real property occupied by the Group's administrative departments, branches and other service units. Domicile property is measured at a revalued amount corresponding to the fair value at the date of the revaluation less depreciation and impairment. According to IFRS 1 "First time adoption of IFRS" the Group has elected to measure the domicile properties at the date of transition to IFRSs at their fair value and use that fair value as its deemed cost at that date.

Consequently shareholder's equity at 1 January 2008 increases by DKK 77,430m. Net profit 2008 decreases by DKK 18,318m. This is due to a similar reversal of write-downs in 2008 where the Groups properties where revalued in accordance with the previous accounting policy. At 31 December 2008 shareholders' equity increases by DKK 0,8m. This is due to the elimination of the revaluation reserve registered in accordance with the previous accounting policies.

Investment property (IAS 40)
According to IFRS investment property is real property including real property let under operating leases that the Group own for the purpose of receiving rent and/or obtaining capital gains and which is not classified as domicile property.

Under the previous accounting policies the Group measured all its properties at cost less depreciation and write-downs. Properties whose fair value, at a conservative estimate was considerably higher than the cost price were revalued at the higher value. Under IFRS Investment property is measured at fair value. Fair value adjustments and rental income are recognised under "Market value adjustments" and under "Other operating income" respectively.

Consequently in the opening balance sheet at 1 January 2008 shareholder's equity increases with DKK 2,5m. Net profit 2008 decreases by DKK 2,5m. This is due to a similar reversal of write-downs in 2008 where the Groups properties where revalued in accordance with the previous accounting policy. At 31 December 2008 shareholders' equity is not changed.

Origination fees, Due to credit institutions etc. (IAS 39)
According to IAS 39, "Financial Instruments, recognition and measurement", fees and commissions that are an integral part of the effective interest rate of a financial instrument must be included in the calculation of the amortised cost of the financial instrument. As a result, origination fees payable will be accrued as an integral part of the loan. Under the previous accounting policies origination fees were expensed at the time of payment.

The opening balance sheet at 1 January 2008 is restated to reflect this. Shareholders' equity increases by DKK 4,828m. Net profit 2008 decreases by DKK 1,899 and Shareholders' equity at 31 December 2008 increases by DKK 2,929m.

Dividends (IAS 10)
According to IAS 10 "Events after the reporting period" the proposed dividend for the accounting year must be recognised in shareholders' equity until adopted by the general meeting. Under the previous accounting policies, the proposed dividend was recognised as a liability. Core capital and the solvency ratio are not affected, since the rules of the Danish FSA still provide that the proposed dividend be deducted before calculating capital adequacy in the individual accounting year.

As a result in the opening balance sheet at 1 January 2008 shareholders' equity is increased with the proposed dividend amounting to DKK 45m

Outstanding claims, insurance contracts (IFRS 4)
Under the previous accounting policies, outstanding claims provisions were valued using an estimate of expected future unreported insurance events at the balance sheet date and insurance benefits due but not yet paid. Under IFRS 4 "Insurance Contracts" outstanding claims provisions will also include amounts to cover all direct and indirect expenses that the company expects to pay to fulfil its obligations to settle claims arising from insurance events that have taken place.

Consequently shareholders' equity decreases by DKK 1,291m at 1 January 2008. Net profit for 2008 increases by DKK 1,338m and there is a minor increase in shareholders' equity amounting to DKK 0,047m at 31 December 2008.

Tax (IAS 12)
At 1 January 2008, the total tax effect of the transition to IFRS is DKK -14,387m. This amount comprise an increase in provisions for deferred tax amounting to DKK 11,031m and a decrease in tax assets amounting to DKK 3,356m.

The total tax effect of the IFRS adjustments on net profit for 2008 is DKK 14,769 comprising reversal of provisions for deferred tax liabilities amounting to DKK 3,740m and a recognised tax asset amounting to DKK 11,029.

At 31 december 2008 the tax effect amounts to DKK 10,882m. This includes a reversal of the tax-effect on the revaluation of the groups buildings in accordance with the previous accounting policies recognised directly in equity under the revaluation reserve amounting to DKK 10,500m together with the changes described above.

1.3. Effect on the income statement and total income for 2008

An overview of the effect on the income statement and total income of the transition to IFRS is shown on the next page. Section 2 shows the changes in each quarter broken down by valuation and presentation.

Income Statement	**Previous acc. policies Føroya Banki Group 2008**	**Change in valuation**	**Change in presentation**	**IFRS Føroya Banki Group 2008**
Interest income	685.416	-11.888	-15.043	658.485
Interest expenses	329.177	1.899		331.075
Net interest income	**356.239**	**-13.786**	**-15.043**	**327.410**
Dividends from shares and other investments	5.436			5.436
Fee and commission income	48.669			48.669
Fees and commissions paid	189			189
Net interest and fee income	**410.156**			**381.326**
Premium income, net of reinsurance	73.520			73.520
Claims, net of reinsurance	50.255	-1.338	5.139	54.056
Interest and fee income and income from insurance activities, net	**433.421**	**-12.449**	**-20.181**	**400.790**
Market value adjustments	-75.687	2.290		-73.397
Other operating income	94.806		-3.168	91.638
Staff costs and administrative expenses	211.852		-8.307	203.546
Depreciation and impairment of property, plant and equipment	-15.201	20.818		5.618
Other operating expenses	7.524			7.524
Impairment charges on loans and advances etc.	49.222	59.654	-15.043	93.833
Income from associated and subsidiary undertakings	2.820			2.820
Profit before tax	**201.963**	**-90.631**	**0**	**111.332**
Tax	31.210	-14.769		16.441
Net profit for the period	**170.753**	**-75.861**	**0**	**94.891**

Net interest income decreases with DKK 13,786m due to origination fees. Origination fees that are an integral part of the effective interest rate of a financial instrument must be included in the calculation of the amortised cost of the financial instrument. As a result, origination fees received or paid in connection with lending will be accrued as an integral part of the loan. Also net interest income decreases with DKK 15,043m due to a reclassification of interests on the impairment charges on loans and advances. Under IFRS interest income will only be recognised on the basis of the value of the loans and advances less impairment charges.

Claims, net of reinsurance decreases with DKK 1,338m due to reversals of additional provisions for outstanding claims in the opening balance and during 2008 and increases with DKK 5,139m which is a reclassification of direct and indirect expenses in connection with processing claims.

The loss on market value adjustments decreases with DKK 2,290m which is a reversal of a loss in connection with the elimination of own shares. Under IFRS own shares are not recognised as an asset. Purchases of own shares will be considered as a reduction and sales as an increase in shareholders' equity.

According to the previous accounting policies, Føroya Banki calculated an internal rent. This is not in accordance with the IFRS and the internal rent amounting to DKK 3,168m is therefore eliminated.

The DKK 20,818m decrease in the item depreciation and impairment of property, plant and equipment is due to the reversals of write-downs on domicile and investment property amounting to DKK 23,513m and adjustments on depreciations amounting to DKK 2,694m.

Impairment charges on loans and advances increase by DKK 59,654m. This is due to new write-downs which already where provided for at the end of 2007 according to the previous accounting policies which is a consequence of the change from the previous accounting policy to IFRS. Also interests recognised on the impairment charge are reclassified amounting to DKK 15,043m.

The total effect on taxes in the income statement is reversals of provisions for deferred taxes and recognition of a deferred tax asset in total amounting to DKK 14,769m.

The effect on total income and shareholders equity is shown below.

Changes in shareholders' equity	
DKK 1,000	
Shareholders' equity at 1 January 2008	1.343.530
Adoption to IFRS (please refer to opening balance)	135.902
As restated at 1 January 2008	1.479.431
Net profit for the period	94.891
Total income	94.891
Dividends paid	-45.000
Acquisition of own shares	-49.846
Sale of own shares	51.542
Shareholders' equity at 31 December 2008	**1.531.018**

1.4. Effect on the balance sheet at 31 December 2008

An overview of the effect on the balance sheet of the transition to IFRS is shown on the next page. Section 2 shows the changes in each quarter broken down by valuation and presentation.

Balance sheet	Previous acc. policies Føroya Banki Group 31-12-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 31-12-2008
Assets				
Cash in hand and demand deposits with central banks	831.374			831.374
Due from credit institutions and central banks	139.405			139.405
Loans and advances at amortised cost	7.746.169	-6.540		7.739.629
Bonds at fair value	940.201			940.201
Shares, etc.	91.610			91.610
Assets under insurance contracts	20.437		2.522	22.959
Holdings in associates	37.220		-9.374	27.846
Holdings in subsidiaries	0			0
Total land and buildings	0			137.222
investment property	0	2.500		2.500
domicile property	0	77.227	57.495	134.722
Tangible assets	167.349	-78.949	-77.768	10.632
Deferred tax assets	244	11.030		11.274
Assets held for sale	0		29.647	29.647
Own Shares	16.153	-16.153		0
Other assets	84.247		-3.356	80.891
Current tax assets	21	-3.356	3.356	21
Prepayments	10.898			10.898
Total assets	**10.085.327**	**-14.241**	**2.522**	**10.073.608**

Loans and advances have decreased by DKK 6,540m. This is due to the accrued origination fees amounting to DKK -58,623m and the lower impairment charges amounting to DKK 29,042m and the market value adjustments of the derivatives used for hedging the interest rate risk on fixed-rate loans amounting to DKK 23,041m. Under the previous accounting policies the Group did not value-adjust derivatives hedging the interest rate risk on its portfolio of fixed-rate assets. Under IFRS 39, both the derivatives used for hedging and the hedged interest rate risk on fixed-term assets are recognised at fair value, and value adjustments are carried in the income statement. The fair value of the interest rate risk on the hedged assets will be recognised under the hedged items.

DKK 2,522m is reclassified from liabilities under insurance contracts to assets under insurance contracts.

The previous accounting policies did not distinguish between domicile and investment property. According to IAS 16 and IAS 40 both domicile and investment property shall be disclosed separately in the balance sheet. Therefore DKK 57,495m is reclassified from tangible assets to the item domicile property. Investment property was recognised and measured at DKK 0 at 1 January according to the previous accounting policies. Investment property is revalued to fair value amounting to DKK 2,5m and domicile property is revalued in accordance with the revaluation model in IAS 16 amounting to DKK 77,227m. The Group has elected to measure domicile and investment property at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at 1 January 2008.

Under IFRS the item tangible assets only consists of operating equipment not held for sale.

According to IFRS 5 "Non-current assets held for sale and discontinued operations" assets are classified as held for sale when the carrying amount will be recovered principally through a sale transaction within 12 months in accordance with a formal plan rather than through continuing use. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell and is not depreciated or amortised from the time when it is classified as held for sale. The Group's plan to dispose of the associate P/F Bakkafrost Holding meets the requirements in IFRS 5 for classification as an non-current asset held for sale. Therefore the carrying amount of P/F Bakkafrost Holding DKK 9,374m is reclassified from Associates to Assets held for sale. The carrying amount of assets acquired in connection with non-performing loans amounting to DKK 20,273m is also reclassified from tangible assets to assets held for sale.

The holdings of own shares amounting to DKK 16,153m is eliminated.

The Group has recognised a deferred tax asset amounting to DKK 11,030m in connection with the IFRS adjustments. DKK 3,356m is reclassified from other assets to tax assets.

Balance sheet	Previous acc. policies Føroya Banki Group 31-12-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 31-12-2008
Shareholders' equity and liabilities				
Due to credit institutions and central banks	2.320.219	-2.929		2.317.290
Deposits and other debt	5.494.199			5.494.199
Issued bonds at amortised cost	500.000			500.000
Liabilities under insurance contracts	44.795	-47	2.522	47.270
Current tax liabilities	2.020	0		2.020
Other liabilities	128.586	23.041		151.627
Deferred income	15.140			15.140
Total liabilities	**8.504.958**	**20.065**	**2.522**	**8.527.545**
Provisions for liabilities				
Provisions for deferred tax		11.226		11.226
Other provisions for liabilities	18.253	-14.434		3.819
Total provisions	**18.253**	**-3.208**	**0**	**15.045**
Shareholders' equity (Tier 1)				
Share capital	200.000			200.000
Share premium account	0			0
Revaluation reserve	47.834	-47.834		0
Reserve, own shares	16.153	-16.153		0
Retained earnings	1.298.129	32.889		1.331.018
Proposed dividends	0			0
Total shareholders' equity	**1.562.116**	**-31.098**	**0**	**1.531.018**
Total liabilities and equity	**10.085.327**	**-14.241**	**2.522**	**10.073.608**

Due to credit institutions and central banks has decreased by DKK 2,929m due to origination fee which in accordance with IFRS must be considered an integral part of the interest on the loan and accrued.

Liabilities under insurance contracts are reduced by DKK 0,47m due to reversals of additional provisions in 2007 and during 2008 for outstanding claims. Also DKK 2,522m is reclassified from liabilities under insurance contracts to assets under insurance contracts.

Other liabilities have increased by DKK 23,041m due to recognition of negative market value of derivatives at year end 2008.

Provisions for deferred taxes have increased by DKK 11,226m due to the transition to IFRS.

Other provisions for liabilities have decreased by DKK 14,434m. This is the tax effect on the reversal of write-downs in 2008, DKK 3,934m, and the tax effect on the elimination of the revaluation reserve, DKK 10,500m.

The revaluation reserve amounting to DKK 47,834 is eliminated. The Group has elected to measure the domicile and investment properties at the date of transition to IFRSs at their fair value and use that fair value as its deemed cost at that date.

The reserve on own shares is eliminated by DKK 16,153m.

1.5. Effect on the cash-flow statement for 2008

An overview of the effect on the cash flow statement of the transition to IFRS is shown on the next page. As it appears from the cash flow statement the transition to IFRS has no effect on the cash flow statement. Even if the transition to IFRS has no effect on the cash flow statement, the cash flow statements for each quarter in 2008 are shown in section 2. This is because there has not been prepared cash flow statements for the Group before, but only cash flow statements comprising the parent company.

Cash flow statement

DKK 1,000	Previous acc. policies Føroya Banki Group 2008	Change in valuation	IFRS Føroya Banki Group 2008
Net profit for the period	170.753	-75.861	94.891
Adjustment of non-liquid operating items, etc.:			
Impairment of loans and advances/guarantees	49.222	59.654	108.876
Depreciation of tangible assets	-15.201	20.818	5.618
Value adjustments, bonds	4.913		4.913
Value adjustments, shares	72.178	-2.290	69.888
Result from investments in group enterprises and associates	-2.820		-2.820
Tax charged to the income statement	31.210	-14.769	16.441
Paid tax	-36.016		-36.016
Earnings	**274.239**	**-12.449**	**261.790**
Change in loans	-282.382	11.888	-270.494
Change in holding of bonds	-4.773		-4.773
Change in holding of shares	-4.963		-4.963
Change in other assets	-2.117		-2.117
Change in deposits	42.126		42.126
Due to credit institutions and central banks	-325.297	1.899	-323.398
Other liabilities	-35.553		-35.553
Assets/liabilities under insurance contracts	823	-1.338	-515
Prepayments	-2.549		-2.549
Provisions for commitments	19.451		19.451
Cash flow from operating activities	**-320.996**	**0**	**-320.996**
Acquisition/sale of tangible assets	-26.956		-26.956
Aquisition/sale of investments	13.825		13.825
Cash flow from investing activities	**-13.131**	**0**	**-13.131**
Issue of bonds	500.000		500.000
Aquisition/sale of own shares	1.696		1.696
Dividends paid	-45.000		-45.000
Cash flow from financing activities	**456.696**	**0**	**456.696**
Cash flow for the period	**122.569**	**0**	**122.569**
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	872.210		872.210
Cash flow for the period	122.569		122.569
Cash and due etc. At the end of the period	**994.778**	**0**	**994.778**
Cash and due etc. At the end of the period			
Cash in hand and demand deposits with central banks	855.374		855.374
Due from credit institutions, etc.	139.405		139.405
Total	**994.778**	**0**	**994.778**

2. Additional information about the effects of the transition to IFRS on the opening balance sheet 1 January 2008 and the interim financial statements for 2008

The following sections show the effects of the transition to IFRS on the opening balance 1 January 2008 and on the interim financial statements 2008 on a year to date basis. The effect is broken down by valuation and presentation.

2.1. Opening balance sheet at 1 January 2008

Balance sheet DKK 1,000	Previous acc. policies Føroya Banki Group 01-01-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 01-01-2008
Assets				
Cash in hand and demand deposits with central banks	239.621			239.621
Due from credit institutions and central banks	538.384			538.384
Loans and advances at amortised cost	7.513.009	35.695		7.548.704
Bonds at fair value	940.341			940.341
Shares, etc.	156.536			156.536
Assets under insurance contracts	12.801		1.142	13.943
Holdings in associates	34.399		-9.374	25.026
Holdings in subsidiaries	13.825		-13.825	0
Total land and buildings	0			137.582
investment property	0	2.500		2.500
domicile property	0	77.430	57.652	135.082
Tangible assets	66.858		-57.988	8.870
Current tax assets	0	-3.356	3.356	0
Deferred tax assets	289	-184		105
Assets held for sale	0		23.535	23.535
Own Shares	20.139	-20.139		0
Other assets	39.705	9.632	-3.356	45.982
Prepayments	8.349			8.349
Total assets	**9.584.256**	**101.579**	**1.142**	**9.686.977**

Balance sheet DKK 1,000	Previous acc. policies Føroya Banki Group 01-01-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 01-01-2008
Shareholders' equity and liabilities				
Due to credit institutions and central banks	2.645.515	-4.828		2.640.688
Deposits and other debt	5.357.867			5.357.867
Issued bonds at amortised cost	0			0
Liabilities under insurance contracts	36.336	1.291	1.142	38.768
Current tax liabilities	1.766			1.766
Other liabilities	185.299	3.367	-45.000	143.666
Deferred income	11.246			11.246
Total liabilities	**8.238.030**	**-170**	**-43.858**	**8.194.001**
Provisions for liabilities				
Provisions for deferred tax		10.848		10.848
Other provisions for liabilities	2.696			2.696
Total provisions	**2.696**	**10.848**	**0**	**13.544**
Shareholders' equity (Tier 1)				
Share capital	200.000			200.000
Share premium account	0			0
Revaluation reserve	0			0
Reserve, own shares	20.139	-20.139		0
Retained earnings	1.123.391	111.040		1.234.431
Proposed dividends	0		45.000	45.000
Total shareholders' equity	**1.343.530**	**90.902**	**45.000**	**1.479.431**
Total liabilities and equity	**9.584.256**	**101.579**	**1.142**	**9.686.977**

2.2 Income statement, total income, balance sheet and cash flow statement at 31 March 2008

Income Statement DKK 1,000	Previous acc. policies Føroya Banki Group Jan-Mar 2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group Jan-Mar 2008
Interest income	157.645	-1.043	-3.069	153.533
Interest expenses	76.781	550		77.331
Net interest income	**80.864**	**-1.593**	**-3.069**	**76.202**
Dividends from shares and other investments	597			597
Fee and commission income	8.696			8.696
Fees and commissions paid	39			39
Net interest and fee income	**90.118**	**-1.593**	**-3.069**	**85.456**
Premium income, net of reinsurance	16.602			16.602
Claims, net of reinsurance	22.824	-559	1.236	23.501
Interest and fee income and income from insurance activities, net	**83.896**	**-1.034**	**-4.304**	**78.558**
Market value adjustments	-16.718	946		-15.772
Other operating income	263		-804	-541
Staff costs and administrative expenses	52.154		-2.040	50.114
Depreciation and impairment of property, plant and equipment	2.383	-706		1.677
Other operating expenses	0			0
Impairment charges on loans and advances etc.	2.200	17.365	-3.069	16.496
Income from associated and subsidiary undertakings	2.820			2.820
Profit before tax	**13.525**	**-16.747**	**0**	**-3.222**
Tax	1.979	122		2.101
Net profit for the period	**11.546**	**-16.869**	**0**	**-5.323**

Changes in shareholders' equity DKK 1,000	
Shareholders' equity at 1 January 2008	1.343.530
Adoption to IFRS (please refer to opening balance)	135.902
As restated at 1 January 2008	1.479.431
Net profit for the period	-5.323
Total income	-5.323
Dividends paid	-45.000
Acquisition of own shares	-15.379
Sale of own shares	21.939
Shareholders' equity at 31 March 2008	**1.435.668**

Balance sheet

DKK 1,000	Previous acc. policies Føroya Banki Group 31-03-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 31-03-2008
Assets				
Cash in hand and demand deposits with central banks	638.795			638.795
Due from credit institutions and central banks	97.206			97.206
Loans and advances at amortised cost	7.588.335	25.410		7.613.745
Bonds at fair value	933.126			933.126
Shares, etc.	137.347			137.347
Assets under insurance contracts	14.528		8.797	23.325
Holdings in associates	37.220		-9.374	27.846
Holdings in subsidiaries	13.825		-13.825	0
Total land and buildings	0			137.531
investment property	0	2.500		2.500
domicile property	0	78.136	56.895	135.031
Tangible assets	66.029		-57.556	8.473
Current tax assets	0			0
Deferred tax assets	289	-3.638	3.454	105
Assets held for sale	0		23.859	23.859
Own Shares	12.633	-12.633		0
Other assets	38.250	5.197	-3.454	39.992
Prepayments	8.629			8.629
Total assets	**9.586.212**	**94.971**	**8.797**	**9.689.980**

Balance sheet DKK 1,000	Previous acc. policies Føroya Banki Group 31-03-2008			IFRS Føroya Banki Group 31-03-2008
Shareholders' equity and liabilities				
Due to credit institutions and central banks	2.639.895	-4.278		2.635.617
Deposits and other debt	5.350.016			5.350.016
Issued bonds at amortised cost	0			0
Liabilities under insurance contracts	52.492	732	8.797	62.020
Current tax liabilities	219			219
Other liabilities	172.180	7.054		179.234
Deferred income	13.739			13.739
Total liabilities	**8.228.541**	**3.507**	**8.797**	**8.240.845**
Provisions for liabilities				
Provisions for deferred tax		10.871		10.871
Other provisions for liabilities	2.596			2.596
Total provisions	**2.596**	**10.871**	**0**	**13.467**
Shareholders' equity (Tier 1)				
Share capital	200.000			200.000
Share premium account	0			0
Revaluation reserve	0			0
Reserve, own shares	12.633	-12.633		0
Retained earnings	1.142.442	93.225		1.235.668
Proposed dividends	0			0
Total shareholders' equity	**1.355.075**	**80.593**	**0**	**1.435.668**
Total liabilities and equity	**9.586.212**	**94.971**	**8.797**	**9.689.980**

Cash flow statement

DKK 1,000	Previous acc. policies Føroya Banki Group Jan-Mar 2008	Change in valuation	IFRS Føroya Banki Group Jan-Mar 2008
Net profit for the period	11.546	-16.869	-5.323
Adjustment of non-liquid operating items, etc.:			
Impairment of loans and advances/guarantees	2.200	17.365	19.565
Depreciation of tangible assets	2.383	-706	1.677
Value adjustments, bonds	-5.735		-5.735
Value adjustments, shares	14.193	-946	13.248
Result from investments in group enterprises	0		0
Result from associates	-2.820		-2.820
Tax charged to the income statement	1.979	122	2.101
Paid tax	0		0
Earnings	**23.746**	**-1.034**	**22.712**
Change in loans	-77.525	1.043	-76.482
Change in holding of bonds	12.950		12.950
Change in holding of shares	5.941		5.941
Change in other assets	19.599		19.599
Change in deposits	-102.057		-102.057
Due to credit institutions and central banks	-5.620	550	-5.070
Other liabilities	10.211		10.211
Assets/liabilities under insurance contracts	14.429	-559	13.870
Prepayments	-280		-280
Provisions for commitments	2.392		2.392
Cash flow from operating activities	**-96.215**	**0**	**-96.215**
Acquisition/sale of tangible assets	-1.554		-1.554
Aquisition/sale of investments	0		0
Cash flow from investing activities	**-1.554**	**0**	**-1.554**
Acquisition/sale of own shares	6.560		6.560
Dividends paid	-45.000		-45.000
Cash flow from financing activities	**-38.440**	**0**	**-38.440**
Cash flow for the period	**-136.209**	**0**	**-136.209**
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	872.210		872.210
Cash flow for the period	-136.209		-136.209
Cash and due etc. At the end of the period	**736.001**	**0**	**736.001**
Cash and due etc. At the end of the period			
Cash in hand and demand deposits with central banks	636.599		636.599
Due from credit institutions, etc.	99.402		99.402
Total	**736.001**	**0**	**736.001**

2.3 Income statement, total income, balance sheet and cash flow statement at 30 June 2008

Income Statement DKK 1,000	Previous acc. policies Føroya Banki Group Jan-June 2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group Jan-June 2008
Interest income	321.543	-3.724	-8.293	309.527
Interest expenses	157.505	730		158.235
Net interest income	**164.038**	**-4.454**	**-8.293**	**151.291**
Dividends from shares and other investments	5.394			5.394
Fee and commission income	19.577			19.577
Fees and commissions paid	83			83
Net interest and fee income	**188.926**	**-4.454**	**-8.293**	**176.179**
Premium income, net of reinsurance	35.228			35.228
Claims, net of reinsurance	31.396	-1.345	2.581	32.633
Interest and fee income and income from insurance activities, net	**192.758**	**-3.110**	**-10.874**	**178.774**
Market value adjustments	-39.366	-1.409		-40.775
Other operating income	-263		-1.584	-1.847
Staff costs and administrative expenses	109.154		-4.165	104.988
Depreciation and impairment of property, plant and equipment	4.466	-1.351		3.114
Other operating expenses	0			0
Impairment charges on loans and advances etc.	18.065	76.265	-8.293	86.037
Income from associated and subsidiary undertakings	2.820			2.820
Profit before tax	**24.264**	**-79.432**	**0**	**-55.167**
Tax	4.015	244		4.258
Net profit for the period	**20.249**	**-79.675**	**0**	**-59.426**

Changes in shareholders' equity DKK 1,000	
Shareholders' equity at 1 January 2008	1.343.530
Adoption to IFRS (please refer to opening balance)	135.902
As restated at 1 January 2008	1.479.431
Property revaluation	
Net profit for the period	-59.426
Total income	-59.426
Dividends paid	-45.000
Proposed dividends	
Acquisition of own shares	-21.475
Sale of own shares	32.250
Shareholders' equity at 30 June 2008	**1.385.781**

Balance sheet DKK 1,000	Previous acc. policies Føroya Banki Group 30-06-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 30-06-2008
Assets				
Cash in hand and demand deposits with central banks	515.213			515.213
Due from credit institutions and central banks	74.439			74.439
Loans and advances at amortised cost	7.728.662	-47.545		7.681.117
Bonds at fair value	960.081			960.081
Shares, etc.	122.667			122.667
Assets under insurance contracts	10.297		9.913	20.210
Holdings in associates	37.220		-9.374	27.846
Holdings in subsidiaries	13.825		-13.825	0
Total land and buildings	0			137.480
investment property	0	2.500	0	2.500
domicile property	0	78.781	56.199	134.980
Tangible assets	64.867		-56.860	8.008
Current tax assets	0			0
Deferred tax assets	289	-3.737	3.554	105
Assets held for sale	0		23.859	23.859
Own Shares	10.772	-10.772		0
Other assets	40.350	13.181	-3.554	49.978
Prepayments	8.826			8.826
Total assets	**9.587.508**	**32.409**	**9.913**	**9.629.829**

Balance sheet DKK 1,000	Previous acc. policies Føroya Banki Group 30-06-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 30-06-2008
Shareholders' equity and liabilities				
Due to credit institutions and central banks	2.533.365	-4.097		2.529.267
Deposits and other debt	5.490.474			5.490.474
Issued bonds at amortised cost	0			0
Liabilities under insurance contracts	51.689	-54	9.913	61.548
Current tax liabilities	1.181			1.181
Other liabilities	136.980	3.664		140.644
Deferred income	7.545			7.545
Total liabilities	**8.221.234**	**-487**	**9.913**	**8.230.659**
Provisions for liabilities				
Provisions for deferred tax		10.894		10.894
Other provisions for liabilities	2.495			2.495
Total provisions	**2.495**	**10.894**	**0**	**13.389**
Shareholders' equity (Tier 1)				
Share capital	200.000			200.000
Share premium account	0			0
Revaluation reserve	0			0
Reserve, own shares	10.772	-10.772		0
Retained earnings	1.153.007	32.774		1.185.781
Proposed dividends	0			0
Total shareholders' equity	**1.363.779**	**22.002**	**0**	**1.385.781**
Total liabilities and equity	**9.587.508**	**32.409**	**9.913**	**9.629.829**

Cash flow statement DKK 1,000	Previous acc. policies Føroya Banki Group Jan-June 2008	Change in valuation	IFRS Føroya Banki Group Jan-June 2008
Net profit for the period	20.249	-79.675	-59.426
Adjustment of non-liquid operating items, etc.:			
Impairment of loans and advances/guarantees	18.065	76.265	94.330
Depreciation of tangible assets	4.466	-1.351	3.114
Value adjustments, bonds	15.682		15.682
Value adjustments, shares	12.689	1.409	14.097
Result from investments in group enterprises	0		0
Result from associates	-2.820		-2.820
Tax charged to the income statement	4.015	244	4.258
Paid tax	0		0
Earnings	**72.346**	**-3.110**	**69.236**
Change in loans	-234.103	3.724	-230.380
Change in holding of bonds	-35.422		-35.422
Change in holding of shares	19.772		19.772
Change in other assets	17.500		17.500
Change in deposits	38.401		38.401
Due to credit institutions and central banks	-111.765	730	-111.035
Other liabilities	-26.063		-26.063
Assets/liabilities under insurance contracts	17.857	-1.345	16.512
Prepayments	-478		-478
Provisions for commitments	-3.902		-3.902
Cash flow from operating activities	**-245.859**	**0**	**-245.859**
Acquisition/sale of tangible assets	-2.475		-2.475
Aquisition/sale of investments	0		0
Cash flow from investing activities	**-2.475**	**0**	**-2.475**
Aquisition/sale of own shares	10.776		10.776
Dividends paid	-45.000		-45.000
Cash flow from financing activities	**-34.224**	**0**	**-34.224**
Cash flow for the period	**-282.558**	**0**	**-282.558**
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	872.210		872.210
Cash flow for the period	-282.558		-282.558
Cash and due etc. At the end of the period	**589.652**	**0**	**589.652**
Cash and due etc. At the end of the period			
Cash in hand and demand deposits with central banks	515.213		515.213
Due from credit institutions, etc.	74.439		74.439
Total	**589.652**	**0**	**589.652**

2.4 Income statement, total income, balance sheet and cash flow statement at 30 September 2008

Income Statement **DKK 1,000**	**Previous acc. policies Føroya Banki Group Jan-Sept 2008**	**Change in valuation**	**Change in presentation**	**IFRS Føroya Banki Group Jan-Sept 2008**
Interest income	504.327	-8.857	-12.586	482.884
Interest expenses	243.901	1.314		245.216
Net interest income	**260.426**	**-10.171**	**-12.586**	**237.668**
Dividends from shares and other investments	5.428			5.428
Fee and commission income	32.660			32.660
Fees and commissions paid	127			127
Net interest and fee income	**298.387**	**-10.171**	**-12.586**	**275.630**
Premium income, net of reinsurance	54.534			54.534
Claims, net of reinsurance	38.895	-1.233	3.804	41.466
Interest and fee income and income from insurance activities, net	**314.027**	**-8.939**	**-16.390**	**288.697**
Market value adjustments	-47.246	-2.727		-49.973
Other operating income	43		-2.376	-2.333
Staff costs and administrative expenses	160.611		-6.180	154.431
Depreciation and impairment of property, plant and equipment	6.518	-2.027		4.491
Other operating expenses	0			0
Impairment charges on loans and advances etc.	18.450	107.741	-12.586	113.604
Income from associated and subsidiary undertakings	2.820			2.820
Profit before tax	**84.065**	**-117.380**	**0**	**-33.315**
Tax	14.836	374		15.210
Net profit for the period	**69.229**	**-117.755**	**0**	**-48.525**

Changes in shareholders' equity **DKK 1,000**	
Shareholders' equity at 1 January 2008	1.343.530
Adoption to IFRS (please refer to opening balance)	135.902
As restated at 1 January 2008	1.479.431
Net profit for the period	-48.525
Total income	-48.525
Dividends paid	-45.000
Acquisition of own shares	-34.107
Sale of own shares	45.015
Shareholders' equity at 30 September 2009	**1.396.813**

Balance sheet DKK 1,000	Previous acc. policies Føroya Banki Group 30-09-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 30-09-2008
Assets				
Cash in hand and demand deposits with central banks	515.157			515.157
Due from credit institutions and central banks	99.535			99.535
Loans and advances at amortised cost	7.829.245	-74.709		7.754.536
Bonds at fair value	848.507			848.507
Shares, etc.	115.865			115.865
Assets under insurance contracts	19.413		3.944	23.356
Holdings in associates	37.220		-9.374	27.846
Holdings in subsidiaries	13.825		-13.825	0
Total land and buildings	0			137.429
investment property	0	2.500	0	2.500
domicile property	0	79.457	55.472	134.929
Tangible assets	63.681		-56.133	7.548
Current tax assets	0			0
Deferred tax assets	289	-3.839	3.656	105
Assets held for sale	0		23.859	23.859
Own Shares	11.959	-11.959		0
Other assets	55.191	7.697	-3.656	59.232
Prepayments	8.311			8.311
Total assets	**9.618.198**	**-853**	**3.944**	**9.621.288**

Balance sheet DKK 1,000	Previous acc. policies Føroya Banki Group 30-09-2008	Change in valuation	Change in presentation	IFRS Føroya Banki Group 30-09-2008
Shareholders' equity and liabilities				
Due to credit institutions and central banks	2.575.339	-3.513		2.571.826
Deposits and other debt	5.393.779			5.393.779
Liabilities under insurance contracts	43.304	58	3.944	47.305
Current tax liabilities	2.715			2.715
Other liabilities	171.501	7.625		179.126
Deferred income	13.294			13.294
Total liabilities	**8.199.931**	**4.170**	**3.944**	**8.208.045**
Provisions for liabilities				
Provisions for deferred tax		10.922		10.922
Other provisions for liabilities	5.507			5.507
Total provisions	**5.507**	**10.922**	**0**	**16.430**
Shareholders' equity (Tier 1)				
Share capital	200.000			200.000
Share premium account	0			0
Revaluation reserve	0			0
Reserve, own shares	11.959	-11.959		0
Retained earnings	1.200.800	-3.987		1.196.813
Proposed dividends	0			0
Total shareholders' equity	**1.412.759**	**-15.946**	**0**	**1.396.813**
Total liabilities and equity	**9.618.198**	**-853**	**3.944**	**9.621.288**

Cash flow statement

DKK 1,000	Previous acc. policies Føroya Banki Group Jan-Sept 2008	Change in valuation	IFRS Føroya Banki Group Jan-Sept 2008
Net profit for the period	69.229	-117.755	-48.525
Adjustment of non-liquid operating items, etc.:			
Impairment of loans and advances/guarantees	18.450	107.741	126.191
Depreciation of tangible assets	6.518	-2.027	4.491
Value adjustments, bonds	11.112		11.112
Value adjustments, shares	25.023	2.727	27.750
Result from investments in group enterprises	0		0
Result from associates	-2.820		-2.820
Tax charged to the income statement	14.836	374	15.210
Paid tax	0		0
Earnings	**142.347**	-8.939	**133.408**
Change in loans	-335.482	8.857	-326.625
Change in holding of bonds	80.722		80.722
Change in holding of shares	12.921		12.921
Change in other assets	2.658		2.658
Change in deposits	-58.293		-58.293
Due to credit institutions and central banks	-69.379	1.314	-68.065
Other liabilities	-829		-829
Assets/liabilities under insurance contracts	356	-1.233	-877
Prepayments	38		38
Provisions for commitments	4.859		4.859
Cash flow from operating activities	**-220.084**	**0**	**-220.084**
Acquisition/sale of tangible assets	-3.340		-3.340
Aquisition/sale of investments	0		0
Cash flow from investing activities	**-3.340**	**0**	**-3.340**
Aquisition/sale of own shares	10.907		10.907
Dividends paid	-45.000		-45.000
Cash flow from financing activities	**-34.093**	**0**	**-34.093**
Cash flow for the period	**-257.517**	**0**	**-257.517**
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	872.210		872.210
Cash flow for the period	-257.517		-257.517
Cash and due etc. At the end of the period	**614.692**	**0**	**614.692**
Cash and due etc. At the end of the period			
Cash in hand and demand deposits with central banks	515.157		515.157
Due from credit institutions, etc.	99.535		99.535
Total	**614.692**	**0**	**614.692**